Oil and Gas News Briefs
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Cheniere gives go-ahead to start work at Corpus Christi LNG

(UPI; May 14) - After a federal export nod, Cheniere Energy said it will start construction of the first liquefaction train at its LNG export plant in Corpus Christi, Texas. The Energy Department on May 12 granted final approval for Cheniere to ship liquefied natural gas to nations that lack free-trade agreements with the United States — a key authorization sought by most all LNG plants in the U.S. "The first train is expected to start operations as early as 2018, with the second train expected to commence operations approximately six to nine months thereafter," the company said in a statement.

The Texas plant is designed to accommodate up to three trains with annual output capacity of 13.5 million metric tons of LNG per year.Cheniere's plant in Sabine Pass, La. — the first LNG export plant in the Lower 48 states — is scheduled to start up late this year. Cheniere has lined up financing for the first phase of its Texas plant, and has an engineering, procurement and construction contract with Bechtel. The La Quinta Channel site is on more than 1,000 acres owned or controlled by Cheniere.

The Texas plant will operate under the so-called "tolling model," where customers will pay for liquefaction, storage and loading services, but Cheniere will not take any risk on gas prices or markets. The Corpus Christi facility would be the first large U.S. export terminal built on a site without an existing, underused LNG import terminal. It's the sixth export project to win Energy Department approval. In addition to Sabine Pass, the others are at Cove Point in Maryland; the Freeport terminal in Texas; Sempra Energy in Hackberry, La.; and a much smaller project in Florida to serve the Caribbean market.

First Nation members unanimous in opposition to LNG deal

(Globe and Mail; Canada; May 13) - Lax Kw'alaams members voting in the final of three meetings have unanimously rejected a $1 billion cash offer from Pacific NorthWest LNG, declining to give consent sought by the project while creating uncertainty for plans to export liquefied natural gas from British Columbia's northwest coast. The lure of the money, which would have been spread over 40 years, is being overshadowed by what the Native group views as excessive environmental risks, particularly to salmon habitat.

"The terminal is planned to be located in the traditional territory of the Lax Kw'alaams," the group's band council said May 13. "Only Lax Kw'alaams have a valid claim to aboriginal title in the relevant area; their consent is required for this project to proceed. There are suggestions that governments and the proponent may try to proceed with the

project without consent of the Lax Kw'alaams. That would be unfortunate." Malaysia's Petronas is the lead in the project, proposed for near Prince Rupert.

After votes in two communities last week against the deal with Pacific NorthWest LNG, the May 12 vote in Vancouver made it three unanimous rejections in a row, said Lax Kw'alaams Mayor Garry Reece. The tally "sends an unequivocal message this is not a money issue," the band council said. "This is environmental and cultural." Reece and 12 elected councillors will make the final decision on behalf of the 3,600-member band. They left the door open for further negotiations, as long as salmon habitat is protected.

First Nation rejection adds to LNG investor concerns in Asia

(Bloomberg; May 13) - Asian investors are losing confidence in Canada's ability to export oil and gas as another major project gets bogged down in aboriginal opposition. A First Nation band has rejected a $1 billion deal from Pacific NorthWest LNG (led by Malaysia's Petronas), imperiling the future of one of B.C.'s most advanced liquefied natural gas export ventures. It's the latest setback blocking Asian access to Canadian energy as pipelines and terminals meet resistance from the nation's indigenous people.

The rebuff puts into sharp focus the hurdles Canada faces in its efforts to compete with the U.S. Gulf Coast and Australia to capture rising Asian demand for energy, as 19 proponents are trying to advance LNG exports from the British Columbia coast. "It sends a very bad signal to the world that's looking at Canada," said Gord Nettleton, a Calgary-based partner at law firm McCarthy Tetrault. The rejection prompts the question, "How are you going to get your house in order?"

Petronas said it will push ahead to resolve differences with the First Nation, but the rejection is another scar on Canada's fledgling efforts to export LNG. Canadian gas projects had been expected to sidestep many of the environmental issues that hit its crude industry as it pushed ahead on projects to export oil sands production. Instead, the gas projects are facing some of the same challenges, raising concerns among Asian investors, said Geoffrey Cann, a partner at Deloitte based in Brisbane.

"They have been vocal in their frustration with the very slow pace of environmental approvals," Cann said. Japan's biggest energy trader Mitsui & Co. wants to buy LNG from Canada but isn't investing in developments because of risks from opposition by minority groups, the head of the company's energy planning group Kaoru Umehara said in November. Petronas expects to make a final decision on its LNG project this year.

B.C. snubbed Alberta oil lines, now at risk for its own LNG projects

(Financial Post commentary; Canada; May 13) - Having put all its efforts behind homegrown liquefied natural gas, while snubbing not-good-enough-for-us oil pipelines

needed by Albertans, British Columbia is now in an uncomfortable situation. As it turns out, LNG, the clean-burning fuel embraced by B.C. Premier Christy Clark, whose development was promoted up and down Asia and that was supposed to be acceptable to the province's green/aboriginal/nimby cohort, is not good enough either.

It has landed on the unwanted pile, right next to the proposed Northern Gateway oil pipeline and proposed Trans Mountain oil line expansion. The boot came this week from the Lax Kw'alaams First Nation, which rejected more than $1 billion in benefits over 40 years offered by Malaysia's state-owned Petronas and its partners in exchange for consent to build the Pacific NorthWest LNG project. The Lax Kw'alaams vote and the band's combative tone can't inspire confidence among the province's LNG proponents.

The flagship project, part of $36 billion in planned investments by the Malaysian company and its partners in Canadian natural gas that started with the takeover of Progress Energy Canada nearly three years ago, was expected to announce a final investment decision in June, six months later than originally expected, and start construction of the province's first export terminal. Today that date is up in the air. For sure, LNG proponents and the Lax Kw'alaams could still find common ground.

Yet their reaction re-enforces the growing international view that building large energy projects in Canada is costly, messy and increasingly hopeless. Opponents with narrow interests and little to lose have come to have disproportionate say over what constitutes the public interest. Clark helped create the mess by giving lots of rope to opponents of oil pipelines while cherry-picking the LNG business, and now faces getting neither.

New study says LNG project in British Columbia will not harm salmon

(Globe and Mail; Canada; May 12) – A proposed liquefied natural gas project in British Columbia, under fire from an aboriginal group, has developed scientific projections that conclude the project will not harm fish as feared by the Lax Kw'alaams. A new study commissioned by the Pacific NorthWest LNG venture asserts that construction of an export terminal near Prince Rupert, B.C., will have little to no impact on salmon stocks, contrary to the popular belief that an area called Flora Bank is crucial for fish habitat.

The LNG group, led by Malaysia's Petronas, is counting on federal environmental approval by this fall. Meanwhile, the project has offered $1 billion to the Lax Kw'alaams in exchange for their consent. But the Lax Kw'alaams and environmentalists say Flora Bank, located in the estuary of the Skeena River, is in an ecologically sensitive area where juvenile salmon seek sanctuary in eelgrass to hide from predators. Critics fear construction of a suspension bridge to the LNG tanker berth would disturb the habitat.

But a 3-D modeling study concludes the terminal could be built in an environmentally responsible manner. "Flora Bank eelgrass is not considered highly productive habitat relative to other areas in Chatham Sound," according to the report by engineering firm Stantec, filed last week with Canada's Environmental Assessment Agency. The report says marine life will not be adversely affected. Industry observers say Pacific NorthWest

LNG is counting on the environmental assessment agency to stick with science instead of being unduly influenced by the First Nation's emotional attachment to Flora Bank.

B.C. premier says First Nation rejection 'part of the process'

(The Canadian Press; May 12) – B.C. Premier Christy Clark insists the rejection by a First Nation of a deal for a liquefied natural gas terminal is nothing more than a bump in the road for the multibillion-dollar project. Clark said she believes reaching a negotiated agreement with the 3,600-member Lax Kw'alaams First Nation, on whose territory the terminal would be built near Prince Rupert, B.C., is only a matter a time.

Pacific NorthWest LNG, led by Malaysia's Petronas, wants to pipe gas from the northeastern corner of the province to an export facility on Lelu Island, just south of Prince Rupert. The First Nation band has rejected a 40-year, $1 billion offer from the project to support the development. "It's always a bit of a bumpy road to get to a negotiated agreement, but I think we'll get there," Clark said before the Lax Kw'alaams final vote on the offer. "It's part of the process."

The band's primary concern relates to the project's impact on Flora Bank, where eelgrass provides habitat to salmon. Rejection, however, will not necessarily scuttle the project. Lelu Island is Crown land managed by the Prince Rupert Port Authority, which means the province technically has the authority to push ahead without support from the Lax Kw'alaams. But the length of time required to sort out the legal uncertainty might encourage developers to go elsewhere, said energy lawyer David Austin.

B.C., Canadian government battle over steel rebar import tariff

(Alaska Highway News; Fort St. John, BC; May 8) - The cost of the Site C dam on the Peace River in northeastern British Columbia could jump between $15 million and $60 million if the province is not exempted from a Canadian federal tariff on rebar imports, an industry group said. Duties on rebar, a steel rod used to reinforce concrete, have been the focus of an ongoing trade dispute between B.C. and the federal government. The $8.8 billion hydroelectric dam project would use 40,000 metric tons of rebar.

The federal government is looking to apply a rate of between 10 and 40 percent on rebar imports to protect manufacturing jobs, said Philip Hochstein, president of the Independent Contractors and Businesses Association of B.C. That would be unfair to B.C., which gets most of its rebar from South Korea and China, he said. The provincial government and ICBA filed jointly with the Canadian International Trade Tribunal for an exemption. The tribunal will hold hearings on the issue this summer.

"We become collateral damage in a battle that's Eastern Canada-based," Hochstein said. According to the B.C. Ministry of International Trade, few construction companies in B.C. use rebar from Eastern Canada due to the high cost of shipping by rail through

the mountains. That means a tariff would not protect existing Canadian jobs, the province argues. Opponents of the tariff also argue it would hurt B.C's proposed liquefied natural gas projects, each of which could use 12,000 metric tons of rebar.

Northeast U.S. LNG import terminal signs up more utilities

(Boston Globe; May 11) – The operator of the LNG import terminal in Boston Harbor said it has signed enough fuel contracts with utilities to potentially avert the natural gas shortages that have plagued the region in recent winters and sent energy costs soaring. Distrigas of Massachusetts announced May 11 its largest LNG contract in more than 25 years, a 10-year agreement with a utility to provide the region with billions of cubic feet of gas to heat homes and generate electricity at power plants.

Distrigas declined to identify the customer, but a Northeast gas and electricity utility, National Grid, confirmed it had signed a contract with Distrigas, although it would not disclose the terms. A spokeswoman for Distrigas, owned by France-based GDF Suez, called the long-term agreement unprecedented because U.S. utilities rarely sign LNG contracts beyond a year or two. Distrigas now has deals with several Northeast utilities, and its LNG volume is up 8 percent from last year and 19 percent from two years ago.

The Distrigas announcement appears aimed at sending a signal that LNG can fill the need for more gas in the region without building new pipelines. Distrigas officials have criticized plans by other energy companies to build multibillion-dollar pipelines to bring more natural gas into the region, largely from shale fields in Pennsylvania and other areas outside New England. LNG can cost twice as much as U.S. pipeline gas, but a glut of LNG on world markets has lowered prices and Distrigas has cut its prices.

Applicant wants to build deep-water LNG export port in U.S. Gulf

(IHS Maritime 360; May 13) - Delfin LNG applied to the U.S. Maritime Administration and the Coast Guard on May 8 for authority to construct and operate what would be the first deep-water floating LNG port in the United States. The proposed Port Delfin, about 50 miles off the coast of Louisiana in the Gulf of Mexico, would export up to 9.2 million metric tons of LNG per year, according to the company's application.

While the Federal Energy Regulatory Commission has jurisdiction over onshore and nearshore liquefaction projects, the Maritime Administration and Coast Guard would oversee the environmental and safety review for an offshore facility. Separately, Delfin applied in 2013 to the Energy Department for export authority.

Delfin proposes to use existing undersea pipelines in the Gulf to transport gas to four moored natural gas liquefaction vessels, where the gas would be liquefied and stored for shipment until it is picked up by LNG carriers. The Delfin proposal is among more than two dozen LNG export projects proposed for the Gulf, East and West coasts. Delfin

is a wholly owned subsidiary of a Dallas-based, privately held energy company. Partners include investors in Texas, India and Singapore.

Washington think tank questions latest Russia-China gas deal

(Center for Strategic and International Studies; Washington, DC; May 11) – Chinese President Xi Jinping and Russian President Vladimir Putin have signed another gas supply agreement, this time for the western route for Russia to send gas to China. It looks a lot like Russia's past efforts to export to its neighbor — Moscow has struggled for nine years to finalize plans for gas sales to China. Despite a series of handshakes and high-profile events, signs point to continued tensions in Russia-China energy ties.

The friction stems from the difficult economics of long-haul pipeline deals, but may also reflect the real state of relations. Putin in 2006 agreed to build two lines to China, one from the east and one from the west, and the countries have been at odds ever since over which should be a priority. Russia prefers the western route from existing Siberian gas fields, which would be shorter and cheaper for Gazprom than the eastern line to China's northeast industries and coastal cities from undeveloped fields in East Siberia.

In a rare public objection, China made clear in 2010 it had little use for a western line, far from its key markets and industrial base. Moscow's continued pressure on Beijing to prioritize the western gas pipeline to China over the eastern route only raises doubts about Russia's commitment to the eastern gas pipeline that it had promised to complete by end-2018. Maybe it's a Russian ploy to secure Chinese financing for the eastern gas line or its Yamal LNG project that has been hindered by Western economic sanctions?

Newest LNG plant in Indonesia to start up next month

(The Jakarta Post; May 12) - The recently completed Donggi Senoro liquefied natural gas plant in Indonesia is expected to start receiving gas in June. The single-train plant, which will be the third LNG export facility in the Southeast Asia country, has just finished construction, according to Pertamina president director Dwi Soetjipto. "We are targeting that it will start the commissioning stage in June and start shipments in July 2017."

Indonesia's state-owned oil and gas corporation Pertamina, through its subsidiary PT Pertamina Hulu Energi, holds a 29 percent stake in the project. Other shareholders are Sulawesi LNG Development, which is owned by Mitsubishi and Korea Gas with a combined 59.9 percent share, and PT Medco LNG Indonesia with 11.1 percent.

The plant has a maximum annual capacity of 2 million metric tons of LNG. In addition to sending gas to the LNG plant, nearby fields will direct their production to an ammonia plant and several power plants. Indonesia remains a major LNG exporter although the government is also looking to meet a growing domestic demand for energy.

Australia project pushes China for LNG price hike from 2002 contract

(Sydney Morning Herald; May 12) - Radical changes in the way Australia’s North West Shelf partners market their liquefied natural gas are being seen as a potential trigger for a showdown with China over the economic super-power's ultra-cheap gas purchase contract. Woodside Petroleum, the lead partner in the North West Shelf venture, said in its 2014 annual report that the partners would switch to a system where each markets its own share of LNG produced at the plant that isn't committed to contract buyers.

By 2021, when several long-term contracts will have expired, the move could create a pool of about 6 million metric tons a year of LNG from North West Shelf being marketed on that basis, Credit Suisse energy analyst Mark Samter told clients in a note. That could create an opportunity to "unlock" the North West Shelf venture's sales contract with China's CNOOC, Samter said. The plant has been expanded since its opening in 1989 and its five trains can now produce up to 16 million metric tons a year of LNG.

The project’s 25-year oil-price-linked contract with China — for more than 3 million tons a year of LNG — was struck at a historically low price in 2002, with no clause for any increase even if oil prices rose. China reportedly pays about $3.25 per million Btu for its North West Shelf LNG, far below current market rates. As revealed in The Australian Financial Review in January, the partners have been seeking to increase the contract price in meetings with Chinese officials. The companies have been accused of holding back LNG cargoes as a tactic to try to pressure China into negotiating a price increase.

Morocco estimates almost five-fold increase in gas demand by 2025

(Morocco Gazette; May 9) - Morocco’s need for natural gas is estimated to reach 175 billion cubic feet per year by 2025, said Abdelkader Amara, Minister of Energy, Mines, Water and Environment. Amara presented to the government council May 7 on the kingdom’s liquefied natural gas import plan. Amara said that by expanding the use of gas, the government wants to improve the country’s energy mix alongside renewables. The 175 bcf estimate for 2025 is almost five times the country’s 2012 gas consumption.

Adding LNG as a fuel source in Morocco would require an investment of $4.6 billion, to be mostly provided by national and foreign institutional and private investors. The money would be needed to build an LNG import terminal. The gas would then be distributed to power plants through a 250-mile pipeline. According to U.S. Energy Department statistics, Morocco produced 2 billion cubic feet of gas in 2012 and consumed 38 bcf, with pipeline imports filling the gap.

In addition to its efforts to import LNG, Morocco has launched a project to build up its renewable energy sources, aiming to generate 42 percent of its energy needs by 2025.

U.K. utility signs up for more gas from Gazprom, Statoil

(Reuters; May 13) - Britain's largest energy supplier Centrica has signed new gas contracts with two of the world's largest producers, Russia's Gazprom and Norway's Statoil, reflecting the U.K.'s growing dependence on gas imports as its production declines. The Gazprom deal gives Britain a much higher exposure to Russian-sourced gas and comes despite European Union pressure to reduce the region's dependence on Russian gas due to frosty relations with President Vladimir Putin over the Ukraine.

Gazprom's pipeline gas supplies to Centrica will rise to 1 trillion cubic feet over six years, through 2021, significantly higher than the three-year supply deal reached in 2012. On average under the new deal, Gazprom will provide about 9 percent of Britain's needs, according to Reuters. "Whatever we might want as Europe, we need to be very careful about being pragmatic about the realities," Centrica Chairman Rick Haythornthwaite said at the company's annual general meeting two weeks ago. "I think it's unrealistic to think that Russian gas is going to be replaced in the near-term."

Gas production in Britain, which was self-sufficient at the turn of this century, has fallen nearly 70 percent since a peak in 2000. The Gazprom supply gas will be sourced by the company's London-based marketing and trading arm, which takes gas from a variety of sources, a Centrica spokeswoman said. Centrica's agreement with Statoil adds an additional 80 billion cubic feet of gas per year to a 10-year deal signed in 2011. Pricing terms of the Gazprom and Statoil deals were not released.

Alberta used equipment prices haven’t collapsed — yet

(Financial Post; Canada; May 7) - Standing within earshot of the constant, almost machine-like droning of the auctioneer rattling off ever-higher bids, construction executive Frank Richardson can’t believe how much money his equipment is fetching at an April auction just outside Edmonton, Alberta. Already, two of his Mack water trucks sold for up to 20 percent more than he had expected, as he watched from the sidelines of what would become a record-setting auction of industrial machinery.

By the time last week’s auction was over, a record $215 million worth of equipment had been sold. Energy companies have pulled back hard on capital spending due to the collapse in oil prices, and the ripple effect is being felt by a wide range of companies across Alberta, including Richardson’s road construction and gravel-crushing businesses. As the construction, drilling, trucking, oil field services and other businesses dry up, they come here, to Ritchie Bros. Auctioneers, to sell off their machinery.

But this auction was no fire sale. Richardson said equipment sold for what it would “in a normal, buoyant economy” — even though Alberta’s economy hasn’t been buoyant since oil prices collapsed last June. Maybe, he wonders, reality has yet to set in. “One of these days, if oil stays $60 and below, there’s going to be a slaughter,” predicting that

used equipment prices would eventually fall along with oil prices. “I thought it would be the first sale. Then I thought it would be the second sale and it still hasn’t occurred.”